

**GRAETTINGER MUNICIPAL LIGHT PLANT
A COMPONENT UNIT OF THE CITY OF GRAETTINGER
GRAETTINGER, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

FOR THE FISCAL YEARS ENDED JUNE 30, 2004 AND 2003

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

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Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Officials

June 30, 2004

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lloyd Petersen	Chairman	Sep 1, 2007
James A. Haegele	Board Member	Sep 1, 2005
Bill Brown, Jr.	Board Member	Sep 1, 2009
Scott Tonderum	Superintendent	Indefinite
Myrtle Erb	Secretary/Accountant	Indefinite

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger
Graettinger, Iowa

Independent Auditor's Report

To the Board of Directors of the
Graettinger Municipal Light Plant
Graettinger, Iowa 51342

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the Graettinger Municipal Light Plant of Graettinger, Iowa as of and for the years ended June 30, 2004 and June 30, 2003. These financial statements are the responsibility of the Light Plant's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 1, the financial statements present only the Graettinger Municipal Light Plant and do not purport to, and do not, fairly present the financial position of the City of Graettinger, Iowa, and the changes in its financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Graettinger Municipal Light Plant of Graettinger, Iowa as of June 30, 2004 and 2003 and the changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 11 to the financial statements, during the year ended June 30, 2004, Graettinger Municipal Light Plant adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated July 23, 2004 on our consideration of Graettinger Municipal Light Plant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 26 through 27 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming opinions on the financial statements that collectively comprise Graettinger Municipal Light Plant's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CORNWELL & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

July 23, 2004

**Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger
Graettinger, Iowa**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Graettinger Municipal Light Plant provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the Light Plant's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Light Plant's operating revenues increased by 4%, or \$30,522, from fiscal 2003 to fiscal 2004. Higher priced power production cost that are reflected in the energy adjustment charge that was implemented in 2002 is the primary cause for this increase.
- The Light Plant's operating expenses increased by 3%, or \$20,520, from fiscal 2003 to fiscal 2004. This includes an increase in power production cost of 11%, or \$34,221 and a 12%, or \$16,260 decrease in administration expenses.
- The Light Plant's non-operating revenues (expenses) decreased by \$67,371 from fiscal 2003 to fiscal 2004. This is primarily due to a one time contribution of \$60,000 to the City of Graettinger for the purpose of constructing a new swimming pool.
- The Light Plant's net assets decreased by less than 1%, or \$11,708 from fiscal 2003 to fiscal 2004.

USING THIS ANNUAL REPORT

The Graettinger Municipal Light Plant is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting, which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to the Graettinger Municipal Light Plant's basic financial statements. The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Light Plant's financial activities.

The Statement of Net Assets presents information on the Light Plant's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Light Plant is improving or deteriorating.

The Statement of Revenues, Expenses and Change in Net Assets is the basic statement of activities for proprietary funds. This statement presents information on the Light Plant's operating revenues and expenses, non-operating revenues and expenses and whether the Light Plant's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Light Plant's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Light Plant financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

FINANCIAL ANALYSIS OF THE LIGHT PLANT

Statement of Net Assts

As noted earlier, net assets may serve, over time, as a useful indicator of the Light Plant's financial position. The Light Plant's net assets for fiscal 2004 totaled approximately \$2,104,000. This compares to approximately \$2,116,000 for fiscal 2003. A summary of the Light Plant's net assets is presented below.

Net Assets		
	Year ended June 30,	
	2004	2003
Current assets	\$ 302,876	329,618
Capital assets	1,399,157	1,398,776
Noncurrent assets	702,058	749,868
Noncurrent restricted assets	167,518	165,887
Total assets	<u>2,571,609</u>	<u>2,644,149</u>
Current liabilities	107,636	108,468
Noncurrent liabilities	360,000	420,000
Total liabilities	<u>467,636</u>	<u>528,468</u>

Net assets:

Invested in capital assets, net of related debt	979,157	918,776
Restricted	167,518	165,887
Unrestricted	957,298	1,031,018
Total net assets	\$ 2,103,973	2,115,681

Additional explanation regarding net assets is as follows:

Invested in capital assets (47% of total) is land, buildings, equipment and .17% ownership in the Neal #4 coal fired power plant, less the related debt portion are resources allocated to capital assets. The unrestricted assets (45% of total) is what can be used to meet the Light Plant's obligations as they come due. The remaining restricted assets (8% of total) is the funds that are earmarked for certain projects and capital improvements.

Statement of Revenues, Expenses and Changes in Net Assets

Operating revenues are derived from the retail sales of electricity to customers of the Light Plant and from an energy adjustment charge imposed upon the same customers. Additional operating revenues are from the sale of wholesale electricity to other electric utilities through NIMECA and some miscellaneous sales. Operating expenses are expenses paid in conjunction with the production and purchase of electricity for resale and to operate the Light Plant. Non-operating revenues and expenses are for interest income and interest expense, payments in lieu of taxes to the City of Graettinger and contributions to economic development. A one time contribution of \$60,000 to the City of Graettinger for the purpose of constructing a new swimming pool is also a non-operating expense. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses and changes in net assets for the fiscal year ended June 30, 2004 is presented below:

Changes in Net Assets		
	Year ended June 30,	
	2004	2003
Operating revenue:		
Electricity sales, retail to Light Plant	\$ 462,849	468,328
Electricity sales, wholesale to other electric	203,994	211,071
Energy adjustments	64,207	20,489
Miscellaneous	34,663	35,303
Total operating revenue	765,713	735,191

Operating expenses:		
Fuel and generation	55,721	58,205
Operation and maintenance, labor, supplies and expense	61,336	36,306
Other power costs	26,758	28,645
Purchased power	193,198	179,636
Plant supplies and expense	25,744	24,308
Line and station labor	76,932	75,499
Distribution supplies and expense	9,377	8,454
Truck expense	3,928	7,233
Accounting and collecting salaries	21,600	20,600
Office supplies and expense	5,238	5,003
Advertising	2,521	2,359
Bad debt	-	1,328
Donations	2,020	180
Employee's benefits	43,149	47,283
Insurance	13,631	11,711
Memberships and dues	13,179	12,207
Miscellaneous general	23,699	28,678
Office supplies and expense	5,847	7,389
Outside services employed	6,306	18,764
Property taxes	9,496	6,209
Depreciation	110,433	109,596
Total operating expenses	<u>710,113</u>	<u>689,593</u>
Total operating income	<u>55,600</u>	<u>45,598</u>
Non-operating revenues (expenses):		
Interest income	30,917	41,141
Other income	19,964	11,546
Payments in lieu of property	(13,277)	(12,434)
Economic development	(21,061)	(8,979)
Interest expense	(20,256)	(31,211)
Amortization expense	(1,000)	-
Gain (loss) on disposal of equipment	(2,595)	-
Contributions for local swimming pool	(60,000)	-
Net non-operating revenue (expenses)	<u>(67,308)</u>	<u>63</u>
Change in net assets	(11,708)	45,661
Net assets beginning of fiscal year	<u>2,115,681</u>	<u>2,070,020</u>
Net assets at end of fiscal year	<u>\$ 2,103,973</u>	<u>2,115,681</u>

The Statement of Revenues, Expenses and Changes in Net Assets reflects a loss for the year with a decrease in the net assets of \$11,708 at the end of the fiscal 2004 year.

In fiscal 2004, operating revenues increased by \$30,522, or 4%, primarily a result of higher priced power production cost that is reflected in the energy adjustment charge assessed to customers that was implemented in 2002. The revenue collected from the energy adjustment charge in fiscal 2004 was \$64,207 compared to \$20,489 in fiscal 2003. All other operating revenues remained fairly steady for fiscal 2004. Operating expenses in fiscal 2004 were similar to the previous fiscal year, with purchased power expense changing the most by increasing from \$179,636 to \$193,198, an increase of \$13,562 or 7.5%.

Total fiscal 2004 operating income increased from \$45,598 in fiscal 2003 to \$55,600, an increase of \$10,002 or 22%. Note this doesn't include the non-operating revenues (expenses).

Non-operating revenues remained close to the 2003 fiscal revenues level, with interest income decreasing by \$10,224 and other income increasing by \$8,418 for a total non-operating revenue of \$50,881 in fiscal 2004, compared with \$52,687 during the previous fiscal year. Non-operating expenses increased from fiscal 2003 by \$65,565, this was primarily due to a one-time contribution of \$60,000 to the City of Graettinger for the purpose of constructing a new swimming pool. Other accounts moving considerably are: interest expense decreased by \$10,955 and economic development contributions increased by \$12,082 during the same time period.

With the inclusion of the non-operating revenues and expenses to the total operating income, the Graettinger Municipal Light Plant showed a loss for fiscal year 2004 of \$11,708, compared to a profit of \$45,661 in fiscal 2003.

Statements of Cash Flows

The Statements of Cash Flows present information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes electricity sales to customers and miscellaneous income reduced by payments made to suppliers and payments made to employees for services. Cash used from capital and related financing activities includes the purchase of capital assets, a refinancing fee and repayment of long-term debt and interest. Cash flows from investing activities includes the purchase and redemption of investments, transfers to and from restricted funds, payments received on notes and interest on investments.

CAPITAL ASSETS

At June 30, 2004 the Light Plant had approximately \$1,398,776 invested in capital assets, net of accumulated depreciation of approximately \$1,711,766. Depreciation charges totaled \$96,499 for fiscal 2004. More detailed information about the Light Plant's capital assets is presented in Note 3 to the financial statements.

LONG-TERM DEBT

At June 30, 2004, the Light Plant had \$420,000 in debt outstanding, a decrease of \$60,000 from fiscal 2003. More detailed information about the Light Plant's long-term debt is presented in Note 6 to the financial statements.

ECONOMIC FACTORS

The Graettinger Municipal Light Plant showed a slight decrease in net assets for fiscal 2004 due to the one-time contribution to the City of Graettinger. The Light Plant anticipates improving its financial position during fiscal 2005.

CONTACTING THE LIGHT PLANT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens and taxpayers of Graettinger, Iowa, customers of the Graettinger Municipal Light Plant and creditors with a general overview of the Light Plant's finances and to show accountability for the money received and expended. If you have questions about this report or need additional information, contact Graettinger Municipal Light Plant, P.O. Box 178, Graettinger, Iowa 51342.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger
Graettinger, Iowa

Basic Financial Statements

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Exhibit A

Statements of Net Assets

June 30, 2004 and 2003

	<u>Assets</u>	
	<u>Proprietary Fund Type</u>	
	<u>Enterprise Fund</u>	
	<u>2004</u>	<u>2003</u>
Current Assets:		
Cash and cash equivalents (Notes 1 and 2)	\$ 105,609	133,108
Accounts receivable (Note 1)	71,065	74,666
Inventories (Note 1)	105,307	99,678
Prepaid insurance	10,892	9,794
Interest receivable	3,779	4,783
Current portion of notes receivable	5,224	7,589
Current portion of prepaid loan fees	1,000	-
Total current assets	<u>302,876</u>	<u>329,618</u>
Capital Assets (Notes 1 and 3):		
Property and equipment	3,110,923	3,014,043
Less accumulated depreciation	<u>(1,711,766)</u>	<u>(1,615,267)</u>
Net capital assets	<u>1,399,157</u>	<u>1,398,776</u>
Non Current Assets:		
Investments (Notes 1 and 2)	585,226	635,225
Notes receivable (Note 4)	111,240	116,416
Prepaid loan fees (Note 1)	6,000	-
Less current portion	(6,224)	(7,589)
Patronage dividends receivable	5,816	5,816
Total non current assets	<u>702,058</u>	<u>749,868</u>
Non Current Restricted Assets (Notes 1 and 5):		
Revenue note sinking fund	867	1,012
Vehicle fund	82,156	76,145
NIMECA transmission fund	57,359	73,634
CTS Capital improvement fund	27,136	15,096
Total non current restricted funds	<u>167,518</u>	<u>165,887</u>
Total assets	<u>\$ 2,571,609</u>	<u>2,644,149</u>

See notes to financial statements.

(continued)

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Exhibit A

Statements of Net Assets

June 30, 2004 and 2003

Liabilities

	<u>Proprietary Fund Type</u>	
	<u>Enterprise Fund</u>	
	<u>2004</u>	<u>2003</u>
Current Liabilities:		
Accounts payable	\$ 23,734	28,506
Operating advance - Neal #4	4,916	4,243
Accrued taxes	5,378	5,040
Accrued interest	1,463	2,460
Accrued property taxes	7,570	5,951
Customer deposits	4,575	2,268
Current portion long-term debt	<u>60,000</u>	<u>60,000</u>
Total current liabilities	<u>107,636</u>	<u>108,468</u>
Non Current Liabilities (Note 6):		
Revenue notes payable	420,000	480,000
Less current portion above	<u>(60,000)</u>	<u>(60,000)</u>
Total non current liabilities	<u>360,000</u>	<u>420,000</u>
Total liabilities	<u><u>467,636</u></u>	<u><u>528,468</u></u>

Net Assets

Invested in capital assets net of related debt	979,157	918,776
Restricted	167,518	165,887
Unrestricted	<u>957,298</u>	<u>1,031,018</u>
Total net assets	<u><u>\$ 2,103,973</u></u>	<u><u>2,115,681</u></u>

See notes to financial statements.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Exhibit B

Statements of Revenues, Expenses and Changes in Net Assets

For the Fiscal Years ended June 30, 2004 and 2003

	<u>Proprietary Fund Type</u>	
	<u>Enterprise Fund</u>	
	<u>2004</u>	<u>2003</u>
Operating revenues	\$ <u>765,713</u>	<u>735,191</u>
Operating expenses:		
Power production	337,013	302,792
Plant	25,744	24,308
Distribution	90,237	91,186
Commercial	26,838	25,603
Administration	119,848	136,108
Depreciation	<u>110,433</u>	<u>109,596</u>
Total operating expenses	<u>710,113</u>	<u>689,593</u>
Operating income	<u>55,600</u>	<u>45,598</u>
Non-operating revenues (expenses):		
Interest income	30,917	41,141
Other income	19,964	11,546
Payments in lieu of property taxes (Note 8)	(13,277)	(12,434)
Economic development payments (Note 9)	(21,061)	(8,979)
Interest expense	(20,256)	(31,211)
Amortization expense (Note 1)	(1,000)	-
Gain (loss) on disposal of equipment	(2,595)	-
Contribution for local swimming pool	<u>(60,000)</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>(67,308)</u>	<u>63</u>
Change in net assets	(11,708)	45,661
Net assets beginning of year	<u>2,115,681</u>	<u>2,070,020</u>
Net assets end of year	<u>\$ 2,103,973</u>	<u>2,115,681</u>

See notes to financial statements.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Exhibit C

Statements of Cash Flows

For the Fiscal Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Cash received from customers	\$ 771,621	731,844
Cash received from miscellaneous income	19,964	11,546
Cash paid to suppliers for goods and services	(604,355)	(484,575)
Cash paid to employees for services	(98,532)	(96,099)
Net cash provided by operating activities	<u>88,698</u>	<u>162,716</u>
Cash flows from capital and related financing activities:		
Refinancing fee paid	(7,000)	-
Acquisition of property and equipment	(113,410)	(52,712)
Repayment of long-term debt	(60,000)	(60,000)
Interest paid on revenue bonds	(21,253)	(31,519)
Net cash used in capital and related financing activities	<u>(201,663)</u>	<u>(144,231)</u>
Cash flows from investing activities:		
(Increase) decrease in patronage dividends	-	208
Investments purchased	(135,226)	(300,000)
Investments redeemed	185,226	250,000
Transfers to restricted funds	(101,039)	(114,207)
Transfers from restricted funds	99,408	111,836
Notes receivable principal received	5,176	11,918
Note receivable issued	-	(20,000)
Interest on investments	31,921	41,143
Net cash provided by (used in) investing activities	<u>85,466</u>	<u>(19,102)</u>
Net decrease in cash and cash equivalents	(27,499)	(617)
Cash and cash equivalents - beginning of year	<u>133,108</u>	<u>133,725</u>
Cash and cash equivalents - end of year	<u>\$ 105,609</u>	<u>133,108</u>

See notes to financial statements.

(continued)

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Exhibit C

Statements of Cash Flows

For the Fiscal Years ended June 30, 2004 and 2003

Reconciliation of operating income to net cash provided by operating activities:

	<u>2004</u>	<u>2003</u>
Operating income	\$ 55,600	45,598
Adjustments to reconcile operating income to net cash provided by operating activities:		
Other revenue (expense) - net	(74,374)	(9,867)
Depreciation	110,433	109,596
(Increase) decrease in current assets:		
Accounts receivable	3,601	(3,065)
Inventories	(5,629)	6,272
Prepaid insurance	(1,098)	(1,361)
Increase (decrease) in current liabilities:		
Accounts payable	(4,772)	13,039
Operating advance - Neal #4	673	2,416
Accrued taxes	1,957	370
Customer deposits	2,307	(282)
Total adjustments	<u>33,098</u>	<u>117,118</u>
Net cash provided by operating activities	<u>\$ 88,698</u>	<u>162,716</u>

See notes to financial statements.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2004 and 2003

(1) Summary of Significant Accounting Policies

Graettinger Municipal Light Plant (Light Plant) provides electric utility services on a user charge basis to the general public within Graettinger, Iowa.

The Light Plant's financial statements are prepared in conformity with U.S. generally accepted principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

The Graettinger Municipal Light Plant is legally separate, but is financially accountable to the City of Graettinger and is managed by a three member board of directors. The Light Plant is considered to be a component unit of the City of Graettinger in accordance with U.S. governmental accounting standards.

For financial reporting purposes, the Light Plant has included all funds, organizations, agencies, boards, commissions and authorities. The Light Plant has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Light Plant are such that exclusion would cause the Light Plant's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Light Plant to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Light Plant. Graettinger Municipal Light Plant has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

The accounts of Graettinger Municipal Light Plant are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2004 and 2003

is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Light Plant applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Light Plant distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Light Plant's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Net Investments

The following accounting policies are followed in preparing the Statement of Net Assets:

Accounts Receivable – The Light Plant charges uncollectible receivables against income and does not maintain an allowance for uncollectibles. At each year-end, those accounts deemed to be worthless are written off. The use of the direct write-off method is not materially different from the reserve method.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2004 and 2003

Inventories – Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis.

Investments – Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

Cash and Cash Equivalents – The Light Plant considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Restricted Assets – The Light Plant sets aside funds for various purposes. See Note 5 for further explanation.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reportable capital assets are defined by the Light Plant as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of three years.

<u>Asset Class</u>	<u>Amount</u>
Buildings and improvements	\$ 2,500
Neal #4 plant	2,500
Engines and other plant equipment	500
Distribution system	2,500
Vehicles	1,000
Office equipment	500

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2004 and 2003

Capital assets of the Light Plant are depreciated using the straight line method over the following useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (in years)</u>
Buildings and improvements	15-40
Neal #4 plant	25
Engines and other plant equipment	7-25
Distribution system	10-20
Vehicles	5-10
Office equipment	3-10

Prepaid Loan Fees – The Light Plant is amortizing loan fees over the remaining life of the loan on a straight-line basis.

Estimates – The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Cash and Investments

The Light Plant's deposits in banks at June 30, 2004 and 2003 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against depositories to insure there will be no loss of public funds.

The Light Plant is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Light Plant; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2004 and 2003

The Light Plant had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3.

(3) Capital Assets

A summary of capital assets at June 30, 2004 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital Assets Not Being Depreciated:				
Land	\$ <u>22,664</u>	---	---	<u>22,664</u>
Capital Assets Being Depreciated:				
Buildings and improvements	155,251	50,450	(12,505)	193,196
Neal #4 plant	669,743	13,564	---	683,307
Engines and other plant equipment	1,207,833	8,462	(6,917)	1,209,378
Distribution system	889,113	28,735	---	917,848
Vehicles	54,210	16,714	---	70,924
Office equipment	<u>15,229</u>	<u>413</u>	<u>(2,036)</u>	<u>13,606</u>
Total capital assets being depreciated	<u>2,991,379</u>	<u>118,338</u>	<u>(21,458)</u>	<u>3,088,259</u>
Less Accumulated Depreciation For:				
Buildings and improvements	121,672	3,763	(9,910)	115,525
Neal #4 plant	391,761	18,108	---	409,869
Engines and other plant equipment	412,854	55,534	(1,988)	466,400
Distribution system	636,415	26,702	---	663,117
Vehicles	44,318	3,431	---	47,749
Office equipment	<u>8,247</u>	<u>2,895</u>	<u>(2,036)</u>	<u>9,106</u>
Total accumulated depreciation	<u>1,615,267</u>	<u>110,433</u>	<u>(13,934)</u>	<u>1,711,766</u>
Total capital assets being depreciated, net	<u>1,376,112</u>	<u>7,905</u>	<u>(7,524)</u>	<u>1,376,493</u>
Total capital assets, net	<u>\$ 1,398,776</u>	<u>7,905</u>	<u>(7,524)</u>	<u>1,399,157</u>

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2004 and 2003

A summary of capital assets at June 30, 2003 is as follows:

	Balance Beginning <u>of Year</u>	<u>Increases</u>	<u>Decreases</u>	Balance End <u>of Year</u>
Capital Assets Not Being Depreciated:				
Land	\$ <u>22,664</u>	---	---	<u>22,664</u>
Capital Assets Being Depreciated:				
Buildings and improvements	143,349	11,902	---	155,251
Neal #4 plant	667,273	2,470	---	669,743
Engines and other plant equipment	1,205,600	2,233	---	1,207,833
Distribution system	859,403	29,710	---	889,113
Vehicles	54,210	---	---	54,210
Office equipment	<u>8,832</u>	<u>6,397</u>	---	<u>15,229</u>
Total capital assets being depreciated	<u>2,938,667</u>	<u>52,712</u>	---	<u>2,991,379</u>
Less Accumulated Depreciation For:				
Buildings and improvements	118,245	3,427	---	121,672
Neal #4 plant	373,752	18,009	---	391,761
Engines and other plant equipment	355,287	57,567	---	412,854
Distribution system	610,846	25,569	---	636,415
Vehicles	42,048	2,270	---	44,318
Office equipment	<u>5,493</u>	<u>2,754</u>	---	<u>8,247</u>
Total accumulated depreciation	<u>1,505,671</u>	<u>109,596</u>	---	<u>1,615,267</u>
Total capital assets being depreciated, net	<u>1,432,996</u>	<u>(56,884)</u>	---	<u>1,376,112</u>
Total capital assets, net	<u>\$ 1,455,660</u>	<u>(56,884)</u>	---	<u>1,398,776</u>

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2004 and 2003

(4) Notes Receivable

Notes receivable at June 30, 2004 and 2003 consist of the following:

	<u>2004</u>	<u>2003</u>
Graettinger Development Council:		
Project 101 (upper Des Moines) note receivable in monthly installments of \$207, including interest at 3.00%, and unsecured	\$ 0	\$ 89
Project 103 (EPS) note receivable in monthly installments of \$483, including interest at 3.00%, and unsecured	0	1,171
Speculative commercial building project note receivable. The total amount due, including interest at 3% will be due January 16, 2011. This loan is not secured.	75,000	75,000
Shavers Manufacturing Construction note receivable in monthly installments of \$386, including interest at 3.00% and unsecured	21,830	25,746
Graettinger Housing Associates, Limited Partnership note receivable in annual payments of \$1,622, beginning December 1, 1997, including interest at 3.00%, and a balloon payment of \$4,075 on December 1, 2010, and secured by a real estate mortgage	<u>14,410</u>	<u>14,410</u>
Total notes receivable	\$ 111,240 =====	116,416 =====

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2004 and 2003

(5) Restricted Funds

The Light Plant has set aside funds for the purchase of a new vehicle. Monthly transfers \$500 are transferred to this fund. The Light Plant has also set aside funds for capital improvements. Monthly transfers of \$1,000 are transferred to the capital improvement fund.

The Light Plant has also set aside funds for payment of electric revenue notes as required by the note indenture.

Additionally, fund balances are maintained with North Iowa Municipal Electric Cooperative Association (NIMECA) for power transmission and improvements in accordance with the Light Plant's agreement with NIMECA.

(6) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for June 30, 2004 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Revenue Notes	\$ 480,000	---	60,000	420,000	60,000
	=====	=====	=====	=====	=====

A summary of changes in long-term liabilities for June 30, 2003 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Revenue Notes	\$ 540,000	---	60,000	480,000	60,000
	=====	=====	=====	=====	=====

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2004 and 2003

The Light Plant's long-term indebtedness consists of one revenue note. This note had an interest rate of 6.15% until it was renegotiated to 4.18% during fiscal year ended June 30, 2004. Annual principal amounts are due from \$55,000 - \$75,000 per year with the final maturity due in the fiscal year ending June 30, 2010. This note was originally issued June 1, 2000 for \$650,000.

The resolutions providing for the issuance of the revenue note include the following provisions:

- (a) The entire income and revenues of the Light Plant shall be deposited as collected in the Revenue Fund and shall be disbursed only as follows:
 - (1) Money in the Revenue Fund shall be first disbursed to the Operation and Maintenance Fund to pay current expenses.
 - (2) Money in the Revenue Fund shall next be disbursed to the Sinking Fund for the purpose of making the note principal and interest payments when due.
 - (3) Any monies remaining in the Revenue Fund may be used to pay for extraordinary repairs or replacements to the system, to redeem the notes or for any lawful purpose.
- (b) User rates shall be established at a level which produces and maintains net revenues at a level not less than 125% of the amount of principal and interest on the notes falling due in the same year.

During the year ended June 30, 2004, the Light Plant was in compliance with its revenue note provisions.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2004 and 2003

A summary of the annual note principal and interest payments to maturity is as follows:

Due Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 65,000	17,556	82,556
2006	65,000	14,839	79,839
2007	70,000	12,122	82,122
2008	70,000	9,196	79,196
2009	75,000	6,270	81,270
2010	<u>75,000</u>	<u>3,135</u>	<u>78,135</u>
Total	<u>\$ 420,000</u>	<u>63,118</u>	<u>483,118</u>

(7) Pension and Retirement Benefits

The Light Plant contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Light Plant is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Light Plant's contribution to IPERS for the years ended June 30, 2004 and June 30, 2003 were \$5,606 and \$5,499, respectively, equal to the required contributions for each year.

(8) Payments in Lieu of Property Taxes

Pursuant to a policy statement adopted on April 9, 1986, the Light Plant is obligated to make voluntary payments in lieu of property taxes to the City of Graettinger. Annual payments are the greater of 7% of net income or \$5,000. This policy was amended June 9, 1999 where the Light Plant is obligated to pay a franchise fee of 1.5 mills per KWH of sales per year.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Financial Statements

June 30, 2004 and 2003

Payments made in the fiscal years ended June 30, 2004 and 2003 totaled \$13,277 and \$12,434 respectively.

(9) Economic Development Payments

Pursuant to a policy statement adopted on May 8, 1991, the Light Plant is obligated to pay annually 5% of net income to the Graettinger Development Council (an economic development association). This policy was amended December 13, 2002, where the Light Plant is obligated to pay a franchise fee of 1.5 mills per KWH of sales per year. Payments to satisfy this policy in the fiscal years ended June 30, 2004 and 2003 totaled \$13,277 and \$3,003 respectively.

During the fiscal years ended June 30, 2004 and 2003, the Light Plant, pursuant to a Board resolution, paid \$7,784 and \$5,976 respectively to the Graettinger Development Council in connection with a housing incentive program.

(10) Risk Management

The Light Plant is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Light plant assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Accounting Change

For the year ended June 30, 2004, the Light Plant implemented Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Scheule – Perspective Differences.

Implementation of these statements had no effect on the beginning balances of the Light Plant.

Required Supplementary Information

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Budgetary Comparison Schedule of Revenues and Expenses

Required Supplementary Information

	Proprietary <u>Fund Type</u> <u>Enterprise Fund</u> <u>Actual</u>	<u>Budgeted Amounts</u> <u>Original</u> <u>Final</u>		Final to Actual <u>Variance</u>
<u>For the Fiscal Year ended June 30, 2004</u>				
Revenues:				
Use of money and property	\$ 30,917	38,000	38,000	(7,083)
Charges for service	765,713	798,000	798,000	(32,287)
Miscellaneous	<u>19,964</u>	<u>15,000</u>	<u>15,000</u>	<u>4,964</u>
Total revenues	<u>816,594</u>	<u>851,000</u>	<u>851,000</u>	<u>(34,406)</u>
Expenses:				
Business type activities	<u>828,302</u>	<u>788,350</u>	<u>788,350</u>	<u>39,952</u>
Total expenses	<u>828,302</u>	<u>788,350</u>	<u>788,350</u>	<u>39,952</u>
Change in net assets	(11,708)	62,650	62,650	(74,358)
Balances beginning of year	<u>2,115,681</u>	<u>2,192,426</u>	<u>2,192,426</u>	<u>(76,745)</u>
Balances end of year	\$ 2,103,973	2,255,076	2,255,076	(151,103)

For the Fiscal Year ended June 30, 2003

Revenues:				
Use of money and property	\$ 41,141	45,000	45,000	(3,859)
Charges for service	735,191	749,000	749,000	(13,809)
Miscellaneous	11,546	17,000	17,000	(5,454)
Total revenues	<u>787,878</u>	<u>811,000</u>	<u>811,000</u>	<u>(23,122)</u>
Expenses:				
Business type activities	<u>742,217</u>	<u>776,300</u>	<u>776,300</u>	<u>(34,083)</u>
Total expenses	<u>742,217</u>	<u>776,300</u>	<u>776,300</u>	<u>(34,083)</u>
Change in net assets	45,661	34,700	34,700	10,961
Balances beginning of year	<u>2,070,020</u>	<u>2,157,726</u>	<u>2,157,726</u>	<u>(87,706)</u>
Balances end of year	<u>\$ 2,115,681</u>	<u>2,192,426</u>	<u>2,192,426</u>	<u>(76,745)</u>

See accompanying independent auditor's report.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Notes to Required Supplementary Information –
Budgetary Reporting

June 30, 2004 and 2003

In accordance with Code of Iowa, the Light Plant annually adopts a budget following required public notice and hearing. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The Light Plant budgets on a GAAP basis and is included in the City of Graettinger's published budget.

Formal and legal budgetary control is based upon nine major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. All Light Plant disbursements are included in business type activities.

During the year ended June 30, 2004, disbursements in business type activities exceeded the amount budgeted.

Other Supplementary Information

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Schedule 1

Schedules of Operating Revenues

For the Fiscal Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Operating revenues:		
Utility sales:		
Residential	\$ 252,838	255,586
Commercial	72,709	72,240
Industrial	122,571	125,067
Public authorities	14,731	15,435
For resale	203,994	211,071
Energy adjustment	<u>64,207</u>	<u>20,489</u>
	<u>731,050</u>	<u>699,888</u>
Other:		
Miscellaneous	<u>34,663</u>	<u>35,303</u>
Total operating revenues	<u>\$ 765,713</u>	<u>735,191</u>

See accompanying independent auditor's report.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Schedule 2

Schedules of Power Production, Plant, Distribution,
Commercial and Administrative Expenses

For the Fiscal Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Power production expense:		
Fuel and generation	\$ 55,721	58,205
Operation and maintenance, labor, supplies, and expense	61,336	36,306
Other power costs	26,758	28,645
Purchased power	<u>193,198</u>	<u>179,636</u>
Total power production expense	<u><u>337,013</u></u>	<u><u>302,792</u></u>
Plant expense:		
Supplies and expense	<u>25,744</u>	<u>24,308</u>
Total plant expense	<u><u>25,744</u></u>	<u><u>24,308</u></u>
Distribution expense:		
Line and station labor	76,932	75,499
Supplies and expense	9,377	8,454
Truck expense	<u>3,928</u>	<u>7,233</u>
Total distribution expense	<u><u>90,237</u></u>	<u><u>91,186</u></u>
Commercial expense:		
Accounting and collecting salaries	21,600	20,600
Supplies and expense	<u>5,238</u>	<u>5,003</u>
Total commercial expense	<u><u>26,838</u></u>	<u><u>25,603</u></u>
Administrative expense:		
Advertising	2,521	2,359
Bad debts	-	1,328
Donations	2,020	180
Employees' benefits	43,149	47,283
Insurance	13,631	11,711

(continued)

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Schedule 2

Schedules of Power Production, Plant, Distribution,
Commercial and Administrative Expenses

For the Fiscal Years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Administrative expense (continued):		
Membership and dues	13,179	12,207
Miscellaneous general	23,699	28,678
Office supplies and expense	5,847	7,389
Outside services employed	6,306	18,764
Property taxes	9,496	6,209
Total administrative expense	<u>\$ 119,848</u>	<u>136,108</u>

See accompanying independent auditor's report.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Schedule 3

Schedule of Insurance Coverage

June 30, 2004

<u>Company</u>	<u>Coverage</u>	<u>Limit</u>	<u>Effective</u>
Employers Mutual	Worker's Comp	\$ 500,000	4/1/04-3/31/05
	General Liability	Aggregate	2,000,000
		Products Liability	2,000,000
		Personal Liability	2,000,000
	Automobile	Liability	1,000,000
		Uninsured Motorist	50,000
		Underinsured Motorist	50,000
	Umbrella Liability	2,000,000	4/1/04-3/31/05
	Crime	Inside Premises	10,000
		Outside Premises	10,000
		Employee Theft	50,000
		Forgery	10,000
	Property	Facilities and Contents	4,783,863
	Inland Marine	Equipment-Catastrophe	Scheduled
	Linebacker	1,000,000	4/1/04-3/31/05

See accompanying independent auditor's report.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Schedule 4

Schedules of Kilowatt Hours

For the Fiscal Years ended June 30, 2004 and 2003

	<u>2004</u>		<u>2003</u>	
	<u>Kilowatt</u>	<u>Percent</u>	<u>Kilowatt</u>	<u>Percent</u>
	<u>Hours</u>		<u>Hours</u>	
KWH Metered:				
Residential	4,727,420	48.52%	4,995,990	50.47%
Commercial	1,297,410	13.32%	1,310,070	13.24%
Industrial	2,134,780	21.91%	2,253,890	22.77%
Public authorities	<u>271,200</u>	<u>2.78%</u>	<u>291,070</u>	<u>2.94%</u>
	8,430,810	86.53%	8,851,020	89.42%
KWH Consumed:				
Used in operations	279,455	2.87%	281,490	2.84%
Distribution system loss	738,032	7.58%	461,551	4.67%
Transmission losses	<u>294,474</u>	<u>3.02%</u>	<u>303,962</u>	<u>3.07%</u>
Total System	<u><u>9,742,771</u></u>	<u><u>100.00%</u></u>	<u><u>9,898,023</u></u>	<u><u>100.00%</u></u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Compliance and on
Internal Control over Financial Reporting**

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger
Graettinger, Iowa

Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting

To the Board of Directors of the Graettinger
Municipal Light Plant:

We have audited the financial statements of Graettinger Municipal Light Plant (Light Plant), as of and for the year ended June 30, 2004, and have issued our report thereon dated July 23, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Graettinger Municipal Light Plant's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However we noted an immaterial instance of non-compliance that is described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Light Plant's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Light Plant. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretation of those statutes.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Graettinger Municipal Light Plant's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control

over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design

or operation of the internal control over financial reporting that, in our judgement, could adversely affect Graettinger Municipal Light Plant's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have been resolved except for I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Graettinger Municipal Light Plant and other parties to whom the Light Plant may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Graettinger Municipal Light Plant during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

CORNWELL & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

July 23, 2004

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Schedule of Findings

For the Fiscal Year ended June 30, 2004

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-04 Segregation of Duties – During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent loss from employee error or dishonesty and therefore maximizes the accuracy of the Light Plant's financial statements. We noted that one employee handles almost all of the financial duties, including reconciling accounts and recording financial data.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. Therefore, we recommend the board maintain its diligence in the review of the financial records.

Response – We will continue our review.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories – A resolution naming official depositories has been approved by the Board of Directors. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget – Disbursements for the year ended June 30, 2004 exceeded the amounts budgeted in the business type activities function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Schedule of Findings

For the Fiscal Year ended June 30, 2004

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

II-C-04 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

II-D-04 Travel Expense – No expenditures of the Light Plant’s money for travel expenses of spouses of Light Plant officials or employees were noted.

II-E-04 Business Transactions – The City of Graettinger has included the Light Plant in the commercial insurance package purchased from the agency of Lloyd Peterson, Chairman of the Light Plant Board. The City bills the Light Plant for their portion of the premiums paid. The Light Plant’s premium paid for this coverage was \$14,523 and \$13,072 for the years ended June 30, 2004 and 2003, respectively.

This does not appear to be a conflict of interest as insurance is a service and falls outside the items that are normally bid on.

II-F-04 Bond Coverage – Surety bond coverage of Light Plant officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that coverage is adequate for current operations.

II-G-04 Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not.

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Schedule of Findings

For the Fiscal Year ended June 30, 2004

- II-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Light Plant's investment policy were noted.
- II-I-04 Revenue Notes – The Light Plant is in compliance with all aspects of the note resolutions. See Part III of Schedule of Findings for further detail.

Part III: Other Findings related to the covenants of the Electric Revenue Bond issued dated June 1, 2000:

1. The Covenants of the note resolution have been complied with in all material respects. In addition, the Light Plant has satisfied the net revenue test as required by the rate covenants.

2. Net revenues for the year ended June 30, 2004 are as follows:

Change in net assets	\$ (11,708)
Depreciation	110,433
Interest expense	<u>20,256</u>
Net revenues	\$ 118,981
	=====

3. Restricted Funds

Balance July 1, 2003	\$ 165,887
Change	<u>1,631</u>
Balance – June 30, 2004	\$ 167,518
	=====

Graettinger Municipal Light Plant
A Component Unit of the City of Graettinger

Schedule of Findings

For the Fiscal Year ended June 30, 2004

4. Rates at June 30, 2004 were as follows:

Residential:	0-500 KWH	6.44 cents per KWH
	All additional KWH	4.11 cents per KWH
Small General Service:	0-1000 KWH	7.94 cents per KWH
	All additional KWH	4.08 cents per KWH
Large Commercial:	All KW of demand at	\$4.39 per KW
	All KWH of energy at	3.31 cents per KWH
Public Authority and Street Lighting:		
	First 1000 KWH at	7.25 cents per KWH
	All additional KWH at	4.09 cents per KWH
Customer Charge All Services Per Month:		\$ 5.00

5. Customer numbers at June 30, 2004 are as follows:

Residential	447
Commercial	73
Large Industrial	13
Public Lighting and Authority	<u>11</u>
544	
===	

6. See Schedule 3 for insurance coverage.

7. See page 1 for list of Light Plant officials.